CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

December 9, 2004

S. 2486
Veterans Benefits Improvement Act of 2004

As cleared by the Congress on November 17, 2004

SUMMARY

S. 2486, the Veterans Benefits Improvement Act of 2004, contains a number of provisions that would either increase or decrease direct spending outlays, including provisions affecting veterans' housing, readjustment, compensation, pension, and burial benefits. CBO estimates the act would decrease direct spending by $28 million in 2005 and $22 million over the 2005-2009 period, but increase direct spending by $3 million over the 2005-2014 period. (The act would not affect revenues.)

ESTIMATED COST TO THE FEDERAL GOVERNMENT

CBO's estimate of the budgetary effects of provisions that affect direct spending is shown in Table 1. The effects on direct spending fall within budget function 700 (veterans benefits and services).

TABLE 1. SUMMARY OF S. 2486'S EFFECTS ON DIRECT SPENDING

	By Fiscal Year, in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Changes in outlays [a]	-28	13	18	-8	-17	-22	-25	21	22	30

a. Total costs over 10 years differ slightly from the sum of the annual costs shown here because of rounding.

BASIS OF ESTIMATE

Over the 2005-2014 period, enacting S. 2486 would reduce outlays for veterans' housing programs, but increase spending for readjustment, compensation, pension and burial benefits. Those effects are summarized in Table 2. The individual provisions that would affect direct spending are described below. (Additional information about the basis of estimate for most of these provisions can be found in CBO estimates for other versions of this legislation. See the "Previous CBO Estimate" section below for a listing of those estimates.)

TABLE 2. IMPACT OF S. 2486 ON DIRECT SPENDING, BY MAJOR COMPONENT

	By Fiscal Year, Outlays in Millions of Dollars									
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
CHANGES IN DIRECT SPENDING OUTLAYS [a]										
Veterans' Housing	-39	-38	-36	-36	-39	-44	-45	*	1	8
Readjustment Benefits	4	42	45	18	11	11	9	9	9	9
Compensation, Pensions, and Burial Benefits	7	9	9	10	11	11	11	12	12	13
Total Changes in Outlays	-28	13	18	-8	-17	-22	-25	21	22	30

NOTE: * = less than $500,000.

a. Total costs over 10 years differ slightly from the sum of the annual costs shown here because of rounding.

Housing

Sections 403 through 407 would affect direct spending for veterans' housing programs. Together, CBO estimates that these provisions would lower direct spending by $39 million in 2005, $188 million over the 2005-2009 period, and $268 million over the 2005-2014 period. In preparing this estimate, CBO accounted for the interactions between individual provisions. Costs or savings for those provisions, estimated as if they were enacted alone, are described below, along with the effect of interactions between the provisions.

Increase and Index Department of Veterans Affairs (VA) Home Loan Guaranty. Section 403 would increase the maximum loan guarantee amount on VA home loans by indexing this amount to the Freddie Mac conforming loan limit for single-family homes, which is adjusted annually to reflect home prices. Under current law, the maximum loan guaranty is $60,000, which effectively creates a maximum loan amount of $240,000. (For large loan amounts, VA can guarantee no more than 25 percent of the loan amount.) The provision would raise the maximum loan guarantee amount to 25 percent of the Freddie Mac conforming loan limit ($333,700 in 2004).

CBO estimates that this provision would lower direct spending on the veterans' housing program by $208 million over the 2005-2009 period and $288 million over the 2005-2014 period. These savings are the net effect of three individual program effects (two with savings and one with costs), as explained below.

Based on information from VA and previous increases in the loan guaranty amount, CBO estimates that the act would result in 11,000 new guaranteed loans a year over the 2005-2014 period. In addition, roughly 4,000 guaranteed loans each year would now be made with higher loan amounts—these would not be new borrowers, but veterans who would no longer need a downpayment (or as large a downpayment) to qualify for the VA loan guarantee. CBO and VA estimate that the VA loan guarantees currently have a negative subsidy rate of about -0.3 percent, reflecting relatively low default rates and up-front fees.

Because of that negative subsidy rate, CBO estimates that the added loans and higher loan amounts would lower direct spending on guaranteed loans by an average of $42 million a year over the 2005-2011 period. Savings would end after 2011 because, under current law, certain loan fees expire in 2012, resulting in higher subsidy rates beginning in that year. Consequently, the increase in the volume of guaranteed loans under S. 2486 would raise direct spending by $10 million over the 2012-2014 period.

Second, CBO expects some of those 15,000 loans will become delinquent and go to foreclosure. When a guaranteed loan goes into foreclosure, VA often acquires the property and issues a new direct loan (called a vendee loan) when the property is sold. Because the vendee loan program also has a negative subsidy rate, CBO estimates that the added vendee loans would lower direct spending by less than $500,000 in 2005 and by $3 million in 2014.

Finally, VA sells most vendee loans on the secondary mortgage market and guarantees their timely repayment. Based on information from VA, CBO estimates the subsidy cost of such loan guarantees would be less than $500,000 through 2007 and would eventually reach $4 million in 2014.

Guarantees of Adjustable Rate Mortgages (ARMs). Section 404 would reinstate VA's program of guarantees for adjustable rate mortgages through 2008. Under that program, interest rates on adjustable rate mortgages guaranteed by VA may change annually. Section 405 would extend through 2008 VA's current pilot program of guarantees for hybrid ARMs, which carry an initial interest rate that is fixed for at least three years and then is subject to annual adjustments. That program is scheduled to expire at the end of 2005.

CBO expects that most veterans would prefer a hybrid ARM. Based on information from VA and experience with the current pilot program, we estimate that about 30,000 hybrid ARMs would be guaranteed each year and that these loans would be 5 percent larger and 10 percent more likely to default than fixed-rate mortgages. (CBO estimates that fixed-rate mortgages guaranteed by VA have a default rate of 7.1 percent and that the hybrid ARMs would have a default rate of 7.8 percent.) Under current law, most of those borrowers would receive VA guarantees for fixed-rate mortgages.

We also expect that about 1,000 ARMs would be guaranteed each year and that those loans would be 20 percent larger and 50 percent more likely to enter into default than fixed-rate mortgages; the projected default rate on those loans is 10.6 percent.

CBO estimates that enacting these provisions would increase direct spending by $22 million over the 2005-2014 period. That sum represents the additional subsidy cost, as defined by the Federal Credit Reform Act, of guaranteeing the two kinds of ARMs. (That cost is the net present value of expected payments by the government to cover defaults and delinquencies, as well as other necessary payments, net of expected receipts to the government from any loan fees, penalties, and recoveries.)

Effect of Interactions Between Housing Provisions. The estimated cost of enacting sections 404 and 405 and the estimated savings from enacting section 403 are both increased by an interactive effect. CBO estimates that the net effect of this interaction would be additional savings of $2 million over the 2005-2014 period.

Housing Loan Program for Native American Veterans. Section 407 would extend through December 31, 2008, VA's direct loan program for Native American veterans living on trust lands. That program is scheduled to expire at the end of calendar year 2005. The program has a negative subsidy rate of 7.75 percent and annual loan levels of about $5 million. CBO estimates that extending the program would lower direct spending by $1 million over the 2006-2009 period.

Loan Fees from Veterans Eligible for Compensation. Section 406 would prohibit VA from charging loan fees for veterans who have been found eligible for compensation as the result of a pre-discharge examination. Under current law, a veteran must be receiving compensation in order to have the fees waived. Based on information from VA, CBO estimates that the enactment of this section would affect very few individuals and would have an insignificant effect on direct spending.

Readjustment Benefits

S. 2486 contains several provisions that would enhance the education benefits available to reservists, veterans, and the spouses and survivors of certain veterans. Other provisions would increase the number of disabled veterans who would qualify for vocational rehabilitation and for grants to obtain automobiles and adaptive equipment and housing (see Table 3). Together, these provisions would increase direct spending by $4 million in 2005, $120 million over the 2005-2009 period, and $168 million over the 2005-2014 period, CBO estimates.

Increased Job Training Benefits. Participants in apprenticeship and on-the-job-training programs usually receive wages that increase as the trainees progress through their training program. Consequently, veterans' education programs provide benefits for job training that offer higher payments at the start of a program and reduced payments in the program's later stages. Veterans in apprenticeship or on-the-job-training programs who are eligible for Montgomery GI Bill (MGIB) benefits, or for benefits under the Post-Vietnam Era Veterans' Educational Assistance Program (VEAP), and reservists who are eligible for benefits under the Selected Reserve MGIB (MGIB-SR), receive 75 percent of their program's full-time benefit during their first six months of job training, 55 percent of the full-time benefit for the second six months, and 35 percent of the full benefit thereafter. Section 103 would increase those percentages to 85 percent, 65 percent, and 45 percent, respectively. In addition, section 103 would increase monthly job training benefits offered under the Survivors' and Dependents' Educational Assistance Program (SDEAP) to $650 for the first six months of a training program, $507 over the second six months, and $366 during the third six months. The benefit offered for any month after that would be $144, which is the current benefit. All of those changes would take effect on October 1, 2005, and would expire after December 31, 2007. CBO estimates that enacting this section would increase direct spending for veterans' education benefits by $73 million over the 2006-2010 period, and less than $500,000 a year between 2011 and 2014.

Apprenticeships. The proposed increases in education benefits for job training programs would affect spending for veterans' education benefits for apprentices in several ways. First, eligible veterans and reservists would receive a benefit increase of about 24 percent over the course of an average, four-year apprenticeship, and eligible survivors and dependents would receive an increase of 16 percent for a similar apprenticeship. Second, some beneficiaries who are currently receiving veterans' benefits as college students but are actually participating in apprenticeship programs would choose to receive benefits as apprentices instead. Finally, some individuals who would not have used the benefit under current law would find the benefit increase a sufficient incentive to enroll in an apprenticeship training program and to apply for VA benefits.

TABLE 3. IMPACT OF S. 2486 ON DIRECT SPENDING OUTLAYS FOR VETERANS' READJUSTMENT BENEFITS [a]

Description of Provisions	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
	By Fiscal Year, in Millions of Dollars									
Increased Job Training Benefits										
Apprenticeships	0	24	26	7	2	1	*	*	*	*
On-the-Job Training	0	5	5	2	1	1	0	0	0	0
Subtotal	0	28	32	9	2	2	*	*	*	*
Competency-Based Apprenticeships	0	6	6	2	1	1	1	1	1	1
Revised Calculation of Months of Entitlement Used	0	0	1	1	2	2	2	2	2	2
Exams for College Admission and for Course Credit	1	3	3	4	4	4	4	4	4	4
Readjustment Benefits for Certain Disabled Veterans	1	1	1	1	1	1	1	1	1	1
Extension of Eligibility Period	1	1	1	1	1	1	1	1	1	1
Housing Grants	1	2	2	1	*	*	*	*	*	*
Administrative Costs	1	2	*	0	0	0	0	0	0	0
Report on Employment of Recent Veterans	*	*	0	0	0	0	0	0	0	0
Total Changes in Veterans' Readjustment Benefits	4	42	45	18	11	11	9	9	9	9

NOTES: * = less than $500,000.
Numbers may not add up to totals because of rounding.

a. Five- and 10-year totals stated in the text differ slightly from the sum of the annual costs shown here because of rounding.

Although section 103 would increase benefits for apprenticeships under several programs (MGIB, MGIB-SR, VEAP, and SDEAP), VA reports indicate the vast majority of apprentices receiving veterans' education benefits do so under the MGIB or MGIB-SR programs. According to VA, about 9,310 trainees (7,440 veterans and 1,870 reservists) received MGIB and MGIB-SR apprenticeship benefits in 2002, as compared to 115 SDEAP beneficiaries and fewer than 50 VEAP beneficiaries. Taken together, CBO estimates that the added education benefits for apprentices would cost $61 million over the 2006-2010 period, and $500,000 a year thereafter.

On-the-Job Training. Veterans' education benefits for on-the-job-training programs are limited to two years. Under S. 2486, eligible veterans and reservists would receive a benefit increase of about 20 percent over the two years of a program of on-the-job-training, and eligible survivors and dependents would receive an increase of 12 percent for the same training.

As with apprentices described above, while section 103 would increase benefits for on-the-job training under several programs (MGIB, MGIB-SR, VEAP, and SDEAP), VA reports indicate the vast majority of trainees receiving veterans education benefits for such training qualify under the MGIB or MGIB-SR programs. According to VA, about 4,040 trainees (3,230 veterans and 810 reservists) received MGIB and MGIB-SR benefits for on-the-job training in 2002, as compared to about 35 survivors and dependents, and very few VEAP beneficiaries. CBO estimates that enacting section 103 would increase spending for veterans benefits for on-the-job training by $13 million over the 2006-2010 period.

Competency-Based Apprenticeships. CBO estimates that about 15 percent of apprentices who are eligible for MGIB and MGIB-SR (about 5,400 and 1,360, respectively) are participating in apprenticeships that are competency-based rather than time-based. In a competency-based apprenticeship, the requirements of the program are satisfied when the trainee has demonstrated mastery of the required skills. Since VA does not generally pay benefits for these programs, CBO assumes those apprentices are receiving education benefits as half-time students.

Section 104 would allow apprentices in competency-based programs to receive apprenticeship benefits from VA. Given the benefit increases provided under section 103 and assuming that these apprentices would make the same benefit choices as those in currently approved apprenticeships, CBO estimates that direct spending for education benefits for apprentices in competency-based programs would increase by $22 million over the 2006-2014 period.

Revised Calculation of Months of Entitlement Used. Veterans' education benefits for apprenticeships and on-the-job training are paid as a percent of the full education benefit, and that percent declines over the course of training. Under current law, the number of months of benefit entitlement under the Vietnam-Era Veterans' Education Assistance Program and the Survivors' and Dependents' Education Assistance Program is reduced by a full month for each month the beneficiary receives a job training benefit. For benefits received in fiscal year 2006 and beyond, section 102 would change the manner of computing the months of entitlement used for these two job-training programs by counting a fraction of each month proportional to the benefit received. For example, in a month where a beneficiary received a benefit of 65 percent of the full-time benefit, that individual's entitlement to education benefits would be reduced by 65 percent of a month, rather than by one month, as is currently the case.

Beneficiaries are entitled to 45 months of benefits under both the Veterans' Education Assistance Program and the SDEAP. CBO calculates that, under this section, trainees in these two programs who would have run short of benefits before the completing a 48-month apprenticeship would now have 28 or 31 months, respectively, of entitlement remaining at the completion of their program. Those engaged in a two-year, on-the-job training program, who would currently have 21 months remaining at the end of their program, would have an additional 12 or 11 months, respectively, at the completion of their program of training.

Based on current usage patterns for these programs, CBO estimates that 35 percent of those who complete an apprenticeship program would go on to use an additional nine months of benefits under this provision. Similarly, CBO estimates that 25 percent of those who complete a program of on-the-job training would go on to use an additional six months of benefits. Based on current benefit amounts and allowing for cost-of-living increases, CBO estimates that implementing section 102 would increase direct spending for these programs by $14 million over the 2006-2014 period.

Exams for College Admission and for Course Credit. Section 106 would allow those veterans, survivors, and reservists who are eligible for veterans' education benefits to use those benefits to pay for tests given nationally for college admission and for course credit. Based on information from VA and the Department of Defense (DoD), CBO estimates that, in 2005, about 11,000 of these students would take one or more entrance or course-credit exams at an average cost of $85 and would be reimbursed by VA under this provision. As the benefit becomes more widely known, CBO expects the number of students using the benefit would increase over several years to about 40,000 a year. Assuming the test fees increase with inflation to an average of about $100 in 2014, CBO estimates enacting this provision would increase direct spending for veterans' readjustment benefits by $1 million in 2005, $15 million over the 2005-2009 period, and $35 million over the 2005-2014 period.

Readjustment Benefits for Certain Disabled Veterans. Under current law, veterans with a service-connected disability are eligible for certain readjustment benefits. Under section 304, these same benefits would be extended to veterans who become disabled, or who are rated at a higher level of disability, as a result of careless or negligent care while in a VA hospital or if injured while participating in a VA-sponsored rehabilitation or training program.

Such veterans are already eligible for veterans' disability compensation, and VA reports that, in 2003, over 2,400 veterans received compensation for just these reasons. Based on current usage rates, CBO estimates that, under section 304, an additional 85 veterans a year would qualify for vocational rehabilitation and another 20 veterans a year would qualify for grants to purchase automobiles and the necessary adaptive equipment to enable these veterans to safely operate their vehicles.

Based on the average costs of these programs, and allowing for cost increases over time, CBO estimates that, under section 304, direct spending for readjustment benefits would increase about $1 million in 2005, $6 million over the 2005-2009 period, and $12 million over the 2005-2014 period.

Extension of Eligibility Period. Under the Survivors and Dependents Education Assistance Program, spouses of veterans who are totally disabled as a result of a service-connected disability, and the unmarried, surviving spouses of servicemembers who died on active duty or of veterans who died of a service-connected disability or while totally disabled as the result of a service-connected disability, are eligible for 36 months of education assistance, at the current rate of $788 a month. Eligible spouses and surviving spouses have 10 years from the date the veteran is rated as totally disabled or from the date of the servicemember's or veteran's death to use the benefit. Section 105 would increase the eligibility period to 20 years for the unmarried, surviving spouses of members who died on active duty.

Based on information from VA and DoD, CBO expects that under section 105, an additional 260 spouses would use this education benefit each year. CBO assumes these trainees would pursue their education at the historical rate for spouses in the survivors and dependents education program. However, because the 2004-2005 academic year has already started, CBO expects these trainees to receive only half of the projected average benefit of $4,300 in fiscal year 2005. Allowing for annual cost-of-living increases in the benefit amount, CBO estimates that enactment of section 105 would increase direct spending for veterans' readjustment benefits by about $600,000 in 2005, $5 million over the 2005-2009 period, and $10 million over th 2005-2014 period.

Housing Grants. VA currently administers two grant programs to assist severely disabled veterans in acquiring housing that is adapted to their disabilities, or in modifying their existing housing. Section 401 would allow totally disabled veterans who have lost, or lost the use of, both arms at or above the elbow to be eligible for the $50,000 housing acquisition grant. Currently, such veterans are eligible to receive the $10,000 housing adaptation grant based on their loss of the use of both hands.

Based on information from VA, CBO estimates that each year, under section 401, about 8 veterans would receive a housing grant that would be $40,000 larger than under current law. In addition, CBO estimates that about 160 veterans who have already received a housing adaptation grant would qualify under section 401 to receive a $50,000 housing acquisition grant. CBO estimates that about half, or 80, such veterans would apply for and receive the $50,000 grant over the next five years.

Section 304 specifies that veterans whose injuries stemmed from VA's negligence or participation in a VA-sponsored rehabilitation or training program would be eligible for these housing grants. However, in a 2003 decision, Kilpatrick v. Principi, the Court of Appeals for the Federal Circuit held that veterans whose disability resulted from their VA care, or from participation in a VA-sponsored rehabilitation or training program, are eligible for adaptive housing grants. Since, in this respect, section 304 would codify existing law, it would not increase direct spending for housing grants.

In total, CBO estimates that enacting these provisions would increase direct spending for housing grants by about $7 million over the 2005-2014 period.

Administrative Costs. Section 104 would authorize the expenditure of $3 million from the readjustment benefits account to modify computer systems and develop procedures as necessary to implement the programmatic changes in sections 102, 103, and 104. CBO estimates that those activities would increase outlays by $1 million in 2005, $2 million in 2006, and less than $500,000 in 2007.

Report on Employment of Recent Veterans. Section 211 would require the Secretary of Veterans Affairs to contract for a study and report on the employment histories of veterans who separated from the armed forces since January 1, 1990. The study would also examine the extent to which those veterans received VA-provided training and rehabilitation. Section 211 would direct that no more than $490,000 in funds from the readjustment benefits account be used pay for the study. CBO estimates half that amount would be expended in 2005 and the other half in 2006.

Compensation, Pensions, and Burial Benefits

Several sections of the act would affect veterans' compensation, pension, and burial benefits (see Table 4). Together, these provisions would increase direct spending by $7 million in 2005, $45 million over the 2005-2009 period, and $102 million over the 2005-2014 period, CBO estimates.

TABLE 4. IMPACT OF S. 2486 ON VETERANS' COMPENSATION, PENSIONS, AND BURIAL BENEFITS [a]

	By Fiscal Year, in Millions of Dollars									
Description of Provisions	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Additional Assistance for Surviving Spouses with Dependent Children Under Age 18	5	7	7	8	8	8	8	9	9	10
Exclusion of Life Insurance Proceeds for Income from Death Pension	2	1	1	1	1	1	1	1	1	1
Veterans Exposed to Radiation	0	0	0	0	1	1	1	1	1	1
Misuse of Benefits by a Fiduciary	*	*	*	*	*	*	*	*	*	*
Total Changes in Compensation, Pensions, and Burial Benefits	7	9	9	10	11	11	11	12	12	13

NOTE: * = less than $500,000.
Numbers may not add up to totals because of rounding.

a. Five- and 10-year totals stated in the text differ slightly from the sum of the annual costs shown here because of rounding.

Additional Assistance for Surviving Spouses with Dependent Children Under Age 18. Under section 301, surviving spouses who are eligible for Dependency Indemnity Compensation (DIC) and have one or more children under age 18 would have their monthly DIC payment increased by $250 for up to two years from the date that the survivor became eligible for DIC. This increase would become effective for DIC payments paid after the enactment date of this legislation. The additional payments would end sooner if all of the surviving spouse's children reached age 18 before the end of the two-year period.

According to VA, about 18,700 surviving spouses began receiving DIC in 2003. After accounting for the mortality rate among active-duty personnel and veterans, CBO estimates that approximately 19,000 surviving spouses began receiving DIC payments in 2004 and that the annual figure would increase to just over 25,000 by 2014.

VA also reports that, in 2003, surviving spouses received additional DIC payments for approximately 1,800 children under the age of 18. Adjusting that number to account for surviving spouses with more than one child—about 1.4 children per family according to the national average—CBO estimates that about 1,250 surviving spouses with children under the age of 18 began receiving DIC payments in 2003. Assuming that the ratio of new surviving spouses to surviving spouses with children under the age of 18 remains the same over the 10-year period (about 7 percent) and that survivors begin receiving payments uniformly over the year, CBO estimates that enacting section 301 would increase direct spending for DIC by $5 million in 2005, $35 million over the 2005-2009 period, and $79 million over the 2005-2014 period.

Exclusion of Life Insurance Proceeds from Income for Death Pension. Two provisions in the act would affect direct spending for death pensions. Under current law, when a surviving spouse files a claim for a death pension, all of that spouse's income received after the date of the veteran's death is considered in determining pension eligibility, including any lump-sum proceeds from life insurance policies on the veteran. In some instances, considering these lump-sum proceeds results in VA denying a surviving spouse's claim for the death pension, requiring the spouse to wait one year from the date of veteran's death before she or he can reapply for a pension. According to VA, these denials happen most often when a surviving spouse files a claim within 45 days of the death of the veteran since most lump-sum life insurance payments are made soon after the veteran's death. These lump-sum payments often cause a claimant's income to exceed the threshold for pension qualification.

A surviving spouse can avoid this situation by waiting at least 45 days after the death of the veteran to file a claim because, according to VA, only income from the date of the claim is considered after that point under current law. In fact, veterans' advocacy groups often instruct surviving spouses to wait until the 45-day period has elapsed before filing a claim with VA for pension benefits to avoid this situation. Thus, a surviving spouse effectively forgoes receiving two months of pension payments by waiting the 45 days to file a claim but has a greater chance of having his or her claim approved.

Section 303 would exclude lump-sum proceeds from a life insurance policy on a veteran from the annual income used to determine eligibility for death pensions. Section 305 would repeal a provision of law that specifies the effective date for an award of a death pension to be the date of death of the veteran when the application is received within 45 days of that date.

According to VA, it denies about 50 percent of pension claims it receives each year, and about 5 percent of those denials are made after considering life insurance proceeds. Based on information from VA and on CBO projections of the number of new death pensioners expected each year of the 2005-2014 period, CBO estimates that 500 surviving spouses would be eligible for an additional year's worth of death pension benefits in 2005; that number would decrease to about 300 by 2014. After adjusting for cost-of-living increases, CBO anticipates that the average additional payment for a surviving spouse would total about $1,850 in 2005 and would grow to $2,200 by 2014, assuming that claimants apply uniformly over the year. Thus, enacting section 303 would increase direct spending for death pensions by about $6 million over the 2005-2014 period.

Additionally, under the act, some surviving spouses would be eligible to receive an additional two months of death pension payments because they would no longer wait the 45 days after the veteran's death to file a claim. VA, however, does not track the number of death pension claims filed within 45 days of the veteran's death. Absent that information, CBO assumes that 50 percent of claims for death pensions are filed at least 45 days after the death of the veteran, and that 25 percent of those people would now file their claims sooner than that, gaining approximately two additional months of benefits. Based on estimates of the number of new death pensioners expected each year over the 2005-2014 period, CBO estimates that 1,300 surviving spouses would receive an additional two months of death pension benefits in 2005 under section 305 and that number would decrease to about 800 survivors by 2014. After adjusting for cost-of-living increases, CBO estimates that an additional two months of payments would total $610, on average, in 2005 and grow to $740 by 2014. Thus, CBO estimates that enacting section 305 would increase direct spending for death pensions by about $7 million over the 2005-2014 period.

CBO estimates that enacting sections 303 and 305 together would raise direct spending for pension benefits by about $14 million over the 2005-2014 period.

Veterans Exposed to Radiation. Section 302 would allow a veteran or a surviving spouse who receives a payment under the Radiation Exposure Compensation Act of 1990 (RECA) to begin receiving disability compensation or dependency and indemnity compensation (DIC) from VA—once the RECA payment is deducted from that compensation—if the veteran or surviving spouse is also eligible for veterans' compensation or DIC as a result of a presumed service-connection between certain diseases and military service during which the veteran was exposed to ionizing radiation. This provision would become effective as of March 26, 2002.

Under current law, a radiation-exposed veteran has two options to receive compensation if he or she was a participant in atmospheric testing of nuclear weapons. The veteran or survivor can either take a lump-sum RECA payment from the Department of Justice (DOJ) and forfeit VA compensation benefits, or opt to receive VA compensation benefits. If the veteran or survivor opts to receive the RECA payment, that payment is reduced by the amount of VA compensation benefits that he or she has received.

Based on information from both DOJ and VA, CBO estimates that about 650 claims from eligible claimants have been approved under RECA between 1990 and 2003, and that another 200 claims are likely to be approved over the 2004-2014 period. According to DOJ, the RECA payment for these claims averaged $72,000 per claim, and the maximum benefit was $75,000. An analysis of DOJ reports indicates that about 35 percent of those claims were from eligible veterans or their survivors; that about two-thirds of that number could qualify for VA compensation benefits; and that 80 percent of the claims were paid to living veterans or surviving spouses. After accounting for mortality and assuming that about 80 percent of those veterans or surviving spouses apply and are approved for veterans disability compensation or DIC, CBO estimates that about 50 veterans and 60 survivors would become eligible for veterans' compensation benefits in 2005 under section 302; such benefits would be reduced until any payments made under RECA were fully offset. After accounting for mortality and new claimants, CBO also estimates that the number of qualifying surviving spouses would increase to about 90 over the 2005-2008 period before declining to about 75 spouses by 2014.

According to VA, a veteran is usually rated 100 percent disabled during treatment for cancer and, depending on the type of cancer, for up to as much as two years after treatment is completed. After that, the veteran's disability rating is usually reduced. Absent information from VA about the average length of treatment for cancer, or the average disability rating given to veterans who have ceased cancer treatment, CBO assumes that qualifying veterans would be rated 100 percent disabled for about a year and a half while undergoing treatment for cancer and that their disability rating would then be reduced to 60 percent. Veterans rated with 100 percent disability received $28,392 annually in veterans' disability compensation in 2004; veterans rated 60 percent disabled received $10,716. Similarly, the average DIC payment to surviving spouses was $12,530 in 2003. (Such payments are adjusted annually for increases in the cost of living.) After accounting for the reductions in benefits that would offset payments made under RECA, CBO estimates that qualifying veterans and surviving spouses would begin receiving disability compensation payments or DIC benefits in 2009. Thus, CBO estimates that enacting this provision would raise direct spending for veterans' compensation benefits by about $1 million in 2009 and $6 million over the 2009-2014 period.

Misuse of Benefits by Fiduciaries. Section 503 would require VA to reissue veterans' compensation and pension benefits to beneficiaries when those benefits were misused by a fiduciary if the fraud can be attributed to negligence by VA. (A fiduciary is the guardian, curator, organization, or person legally vested to care for a claimant or beneficiary's estate.) Under the act, VA negligence would be defined as:

- VA's failure to review a fiduciary's accounting within 60 days of scheduled review,

- VA's failure to act on allegations of fraud by a fiduciary within 60 days of notification, or

- Any other case in which actual negligence is shown.

Under section 503, VA also would be required to reissue benefits to a beneficiary in cases where a fiduciary represents 10 or more beneficiaries, regardless of whether or not the benefits are recouped from the fiduciary. Currently, VA only reissues benefits that were recouped from the fiduciary through court-ordered restitution. Any benefits that are not recovered from the fiduciary are not reissued to the beneficiary.

CBO assumes that, under the act, VA would be held liable for any fraud that stems from certifying fiduciaries. (Under section 502 of the act, VA would be required to complete in-depth investigations to determine the fitness of an individual before certifying him or her as a fiduciary.) According to data provided by VA for the 1999-2003 period, it received an average of about 50 referrals a year for fiduciary fraud. Those referrals resulted in about 10 arrests a year and about $350,000 annually in recoveries, mostly of benefit payments, which would be reissued under this act. After adjusting for inflation, CBO estimates that this provision would raise direct spending for veterans' disability compensation and pensions by less than $500,000 in 2005, about $2 million over the 2005-2009 period, and about $4 million over the 2005-2014 period.

PREVIOUS CBO ESTIMATES

On August 19, 2004, CBO transmitted a cost estimate for S. 2486, the Veterans' Benefits Improvements Act of 2004, as ordered reported by the Senate Committee on Veterans' Affairs on July 20, 2004.

On July 13, 2004, CBO transmitted a cost estimate for H.R. 1716, the Veterans Earn and Learn Act of 2004, as reported by the House Committee on Veterans' Affairs on June 25, 2004.

On May 25, 2004, CBO transmitted a cost estimate for H.R. 4345, a bill to amend title 38, United States Code, to increase the maximum amount of home loan guarantee available under the home loan guarantee program of the Department of Veterans Affairs, and for other purposes, as ordered reported by the House Committee on Veterans' Affairs on May 19, 2004.

On May 18, 2004, CBO transmitted a cost estimate for H.R. 4345, as introduced on May 12, 2004.

On April 28, 2004, CBO transmitted a cost estimate for H.R. 4065, the Veterans Housing Affordability Act of 2004, as introduced on March 30, 2004.

On April 20, 2004, CBO transmitted a cost estimate for H.R. 2206, the Prisoner of War/Missing in Action National Memorial Act, as introduced on May 22, 2003.

Most provisions in S. 2486 are similar or identical to provisions in the above bills and have similar or identical costs. However, the cleared version of S. 2486 increases job training benefits for a shorter period of time than was proposed in H.R. 1716. S. 2486, as cleared by the Congress, would reinstate or extend ARM programs for a shorter period of time than proposed in the version of S. 2486 that was ordered reported, and would also increase the maximum loan guarantee by a slightly higher amount than under H.R. 4065. Finally, S. 2486, as cleared by the Congress, includes a new provision that would increase the monthly DIC payments for certain surviving spouses for up to two years.

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